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THE AMERICAN MERCHANT MARINE PROBLEM: ITS DEVELOPMENT FROM 1920 TO 1932

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BY

MERTEN JOSEPH MANDEVILLE

B.S., University of Illinois, 1921
M.S., University of Illinois, 1922

AN ABSTRACT OF A THESIS

SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY IN
ECONOMICS IN THE GRADUATE SCHOOL OF
THE UNIVERSITY OF ILLINOIS,
1935

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Jan. 23, 1936 a.e.

THE AMERICAN MERCHANT MARINE PROBLEM: ITS DEVELOPMENT FROM 1920 TO 1932.

Whether or not the United States should attempt to establish a merchant marine in the foreign carrying trade has been a debatable subject among economists for many years. One group maintains the thesis that ocean transportation is in no way different from any other economic service and should be purchased from whatever source is willing to furnish it at the lowest price. It is generally acknowledged that the cost of supplying the service of ocean transportation is greater for American vessels than for those of many foreign countries; therefore, this group contends, the best interests of the nation are served by allowing foreign-flag ships to take over the carrying of our foreign commerce. American shipping legislation prior to the world war generally conformed with this doctrine.

Those opposing this view assert that shipping is a function which is vital to the economic welfare of the nation, and that a merchant marine is essential to promote foreign commerce to its fullest extent. They allege that this country has suffered, both in the loss of trade and in higher freight rates paid, by permitting other nations to control the carrying of its goods. Furthermore, they claim that a merchant marine is not alone an economic asset to a nation, but is necessary to insure protection against military aggression. The policies advocated by this group have been favored in national legislation beginning with the passage of the Shipping Act in 1916.

This study was undertaken with the purpose of determining the relative merits of the two postulates presented and evaluating the efforts made to establish a merchant marine in the United States. The shipbuilding activities during the world war left us with a large fleet of merchant vessels in the government's possession, and this provided a nucleus from which it was proposed to build a merchant marine. The consequences of the rapid development, the efforts made to promote a shipping industry in this country, and the conditions under which the American merchant marine was operating from 1920 to 1932 are analyzed; and some suggestions are offered as an aid in solving the problems presented.

One of the difficulties encountered in a study of the merchant marine is the biased opinion and testimony which are presented on both sides of the question. It immediately becomes apparent

that the problem is not economic alone, but is largely political. Considered on purely economic principles of free competition for all, the advantage to a nation in possessing its own shipping facilities is slight. Some benefits which may accrue to shippers are as follows: more direct lines of communication are established, national customs and trade practices are better understood, the marketing of national goods is facilitated through agencies conducted in foreign countries, and there is less likelihood of the service being disrupted by external conditions. But these would not compensate to any great extent for higher freight rates when such charges are necessitated by the operation of national-flag ships.

Conditions of unhampered competition are rarely found in international trade, however, and the carrying fleets of various nations have been utilized to secure competitive advantages for the merchants of the countries under whose flags the vessels sail. Nationalistic interests have a decided bearing on the conduct of a merchant marine and its associated services. Discriminations may be made against the exporting firms of a country by imposing higher freight rates and insurance premiums on their commodities, by providing poorer service in handling cargoes, and by supplying competing firms with valuable trade information obtained from manifests and bills of lading. The general opinion as to the political importance of a merchant marine is evidenced by the fact that nearly all governments give aid to national ships by means of subsidies of one kind or another.

National-flag merchant vessels also occupy a prominent place in the military organization of a country. Most authorities agree that the merchant marine should be considered as an integral part of the sea forces in evaluating a nation's naval strength. Colliers, tankers, supply ships, and other auxiliaries are essential to maintain a navy on the sea, while other merchant vessels may be readily converted to use as cruisers, blockading ships, and airplane carriers. In addition, ships furnish transport service and supplies to the army in a campaign carried on in a foreign nation. It was the military aspect of shipping which changed the attitude of this nation toward a merchant marine during the world war and led directly to the great expansion in shipbuilding which occurred at that time.

The building program was continued after the cessation of hostilities for several reasons: contracts were already let and could not be cancelled without considerable loss, the need for ships was still acute, the Shipping Board desired to build a permanent merchant marine, and political influence was present. In 1920 the United States possessed what was up to that time the largest fleet in its history.

The Merchant Marine Act passed in that year sought to establish an American shipping industry which would survive. One of the primary purposes of the Act was stated as being the disposal of government-owned ships to private owners, but this was retarded by the provisions which restricted the sale of Shipping Board vessels. The price of tonnage was held too high to permit of the sale of many vessels before the rapid decline in freight rates made shipping an unprofitable venture. Several ships purchased on time contracts were turned back to the Shipping Board.

The intention of Congress was to promote a merchant marine by affording it preferential treatment in respect to rail rates, customs duties, and tonnage dues; but these measures created so much opposition, both at home and abroad, that they were never put into effect. A construction loan fund was set up to facilitate the building of new ships and the modernization of the existing fleet. Conditions in shipping were such that the Act of 1920 did not prove effective in keeping American vessels in operation in competition with foreign ships, and agitation soon arose to have Congress provide more direct aid to the merchant marine. Several measures were proposed, but definite action was not taken until 1928 when the second Merchant Marine Act was passed.

In compliance with the stated purpose of the Act of 1920, the Shipping Board sought to dispose of its fleet to persons who would guarantee to operate the ships in foreign trade, but this was not easily accomplished on account of the competitive disadvantages against which American vessels were forced to contend. New ships were being constructed in foreign countries which had features of design not incorporated in the American vessels built during the war period. The owners of the older and slower speed ships found it increasingly difficult to secure cargoes. Finally, ridiculously low prices were quoted by the Shipping Board on vessels which would be put in foreign service, but even this did not bring forth many buyers. In order to keep foreign trade lines in operation, the Shipping Board continued its contracts with managing operators who maintained the services under the direction of the Emergency Fleet Corporation.

Government operation of shipping was found to be expensive and undesirable as a means of continuing the foreign trade fleet in existence. The contracts with the managing operators were changed several times in an attempt to correct the situation, but only a slight improvement resulted. Losses were incurred in every year, and these were reduced only by the withdrawal of several services and the laying up of tonnage. Since a heavy expense was incurred in maintaining the laid-up fleet in condition, a program of scrapping vessels was begun in 1925. This procedure was favored by the shipowners of the country, but was opposed by shippers and labor organizations. The Shipping Board pursued a vacillating course, but provided a useful service to shippers by maintaining several lines in operation which would have ceased to function if it had not been for the government support. It was asserted that government operation was not only dictated by political motives, but it also tended to destroy private initiative. The great number of ships laid up in idleness constituted a potential threat against new ventures in shipping lines, as an uncertainty existed about what disposal would be made of these vessels.

Private owners could not afford to build new ships in American yards because of the high costs of construction in this country, generally considered to be about 50 to 60 per cent above those in British plants. Foreign-built ships could not be employed in the protected coastwise trade, which was prosperous; so very few new ships were added to the fleet. In addition, the expenses incident to the operation of American vessels were higher than those of foreign vessels. The principal item causing this differential was the same one which contributed to the greater building costs, the relatively higher wages for labor in the United States. Furthermore, American operators were inexperienced in the management of foreign trade lines, and this fact was utilized by foreign insurance companies to impose higher insurance rates on American vessels and the cargoes they carried. These disadvantages, combined with the assistance given by foreign governments and shippers to their own national-flag ships, made it extremely difficult for American lines to continue in operation.

The result was that the bulk of the great fleet of ships built during the expansion program was either employed in the coastwise trade or was lying idle at the docks. The Act of 1920 had failed to revive our shipping industry, and since its enactment the American merchant marine engaged in the foreign trade had progressively declined both in tonnage and in respect to the per cent of commerce carried.

This was the situation in 1928 when Congress took note of the fact and passed the Jones-White Act. The principal feature of the Merchant Marine Act, 1928 was the authorization of ocean mail contracts for vessels engaged in carrying services between United States and foreign ports. Rates of pay were not based on the amount of mail handled but on the length of the voyage and the size and speed of the vessel. The mail contracts were in effect a direct subsidy to the shipping industry of the nation. Their purpose was to promote the foreign trade merchant marine by providing an inducement for the building of new ships and/or the reconstruction along modern lines of the vessels already in service. Most contracts contained a clause stipulating that some form of construction was required, and the plans and specifications were to be approved by the Secretary of the Navy to insure the adaptability of the vessels to naval usage in case of a national emergency. It was required that all vessels under contract should employ American officers and that a certain percentage of the crew should be composed of American citizens. Furthermore, the vessels might be taken over for use by the government if the need arose.

The Merchant Marine Act, 1928 also increased the amount of the construction loan fund and made its features more advantageous to borrowers. The effect of the legislation was a stimulation in the building of ocean vessels and in the employment of privately owned ships in the foreign trade. The Shipping Board was enabled to sell some of the lines which it had been operating at a loss.

The large payments given to the lines under ocean-mail contracts resulted in many applications to operate contract services. Political pressure was employed in some instances, and this feature endangered the successful attainment of the objective desired. The Merchant Marine Act of 1928 contained provisions which should aid in the permanent development and operation of an American merchant marine, but whether or not this outcome is achieved depends upon the policy followed in administering its features. The history of subsidy measures has demonstrated that their beneficial possibilities are often nullified by the fact that incompetence and inefficiency are fostered to the detriment of the industry as a whole. If the American shipping industry is to be placed on a stable basis, great care must be exercised to guard against this danger.

The spirit of nationalism which has become increasingly manifest over the last few years has increased the political importance of a merchant marine to the United States. If a spirit of cooperation and peace existed among all nations, the abandoning of all artificial aids to our national-flag fleet might be the best economic course to pursue. Leaving all political factors out of consideration, the cheapest method of transporting goods over the sea would be for the nation, or nations, with the greatest surplus wealth to furnish the capital, the nation with the best facilities of production to build the vessels, and the nation with the most efficient sailors to man the vessels. In this manner a truly international shipping service would be established. But international relations being what they are, it is impossible to eliminate the political considerations, and for that reason a national-flag merchant marine can serve to protect the United States against both economic and military aggression.

Several conditions have made it impossible for the American merchant marine to compete with foreign ships unless government assistance is given. The higher wage scale prevailing in the United States adversely affects both building and operating costs; a situation which it is difficult to circumvent because the peculiarities of the industry do not permit of much conservation in the use of labor. Insurance companies controlled abroad have tended to make it difficult for American ships to secure as favorable insurance rates as those offered their own national vessels. Foreign governments have given aid to their national-flag vessels by means of subsidies and assistance in securing cargoes. Since a merchant marine is desirable to protect national interests, some form of subsidy is justifiable to promote its development and keep it in operation. The features of the ocean mail contracts and construction loan fund contained in the Merchant Marine Act, 1928 are constructive legislation from this point of view, but safeguards should be provided against their employment for selfish purposes.

The competitive disadvantages may be alleviated to some extent by other means than the use of subsidies, and these methods should be put into effect with the intention of lessening subsidy payments when conditions warrant that course of action. Shipbuilding costs may be lowered somewhat by breaking the monopoly which the builders now have in supplying vessels for the coastwise trade. If shipbuilding were given protection only equal to that afforded other American manufacturing firms by tariff duties, some reduction might be secured in the price of new vessels. Under present conditions the building of coastwise vessels is more important to the yards than the securing of contracts for over-seas ships, and the price of the latter type of vessels is governed by the price of the former. More use may be made of partially standardized construction, and some aid in the development of designs would be secured by the construction of additional model basins.

An improvement in the efficiency of ship operation is possible. Greater attention to the care of cargo, the safety of the ship, and service features should result in the securing of more freight and passenger traffic. The efficiency of officers and crews may be raised by providing them with the advantages of training in the United States Navy, either in a naval reserve or in actual service under short-term enlistments. Some slight modifications in the provisions of the Seaman's Act would lessen costs to the operators and obtain better discipline aboard ship.

Other measures which should be adopted include a revision and codification of the navigation laws, the legalization of free trade zones, improvement in port and terminal facilities, and a more concerted effort to establish marine insurance and reinsurance companies in this country. Government ownership of merchant vessels should be discontinued and the uncertainty of the situation removed.

All of these suggestions should prove effective in promoting an American merchant marine; but the American merchant marine will never become what it should be until those engaged in the shipping industry learn that they must expend less effort in the securing of political favors and concentrate more upon the practice of sound business principles.

VITA

Merten Joseph Mandeville, the writer, was born at Quincy, Illinois, on December 16, 1895. He attended the elementary schools of Quincy, Illinois and Terre Haute, Indiana, and graduated from the Indiana State Normal High School in June, 1914. From September, 1914 to June, 1915 he attended the Indiana State Normal College, registering as a special student. In September 1915 he matriculated in the University of Illinois and continued his education until June, 1917, when he left the university to serve in the military forces of the United States. In 1919 he returned to the University of Illinois, and received the degree of Bachelor of Science in June, 1921. The following academic year he entered the graduate school while serving as assistant in the Department of Business Organization and Operation at the University of Illinois, and in August of 1922 he was awarded the degree of Master of Science. After several years of business activity in Chicago and other cities he returned to the University of Illinois in September, 1929, as instructor in the Department of Business Organization and Operation. Since that time, in addition to his teaching duties, he has completed the requirements for the degree of Doctor of Philosophy in Economics, of which this thesis is a part.

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